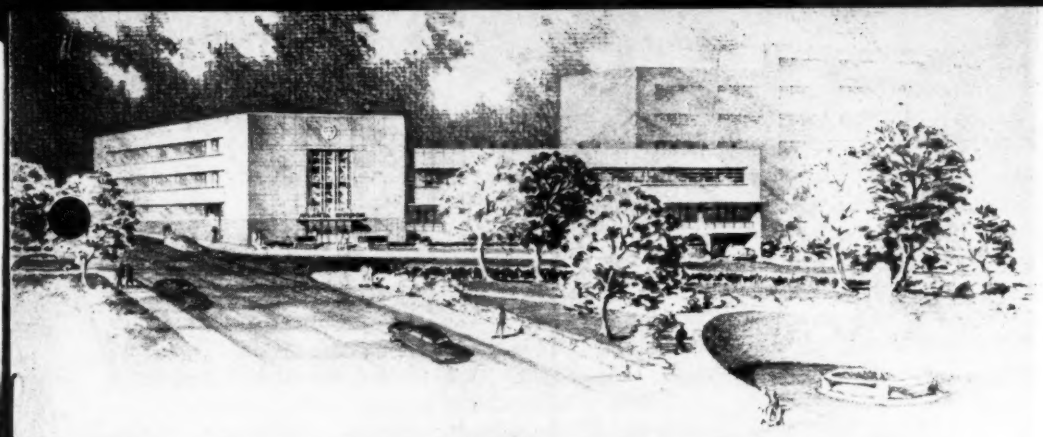

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THE NATURE OF ECONOMICS AND THE TASK OF THE ECONOMIST

by
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The field of economics is one of the least understood, yet one of the most widely discussed of the academic disciplines. The dictum "fools rush in where angels fear to tread" is particularly appropriate in the case of economics. Chemists, physicists, engineers, lawyers, M. D.'s and others are able to express themselves authoritatively to respectful non-professional audiences in their respective field with a minimum of dispute from outsiders. The economist, on the other hand, finds that little or nothing in his sphere is sacred or beyond the critical view of the non-economist.

Men from other professions, who are completely intolerant of the opinions of outsiders in their own areas, give vent to their own "economic theories" and engage in open disagreement with economists on matters which are purely or largely economic. What is the reason for this? It is often alleged by the untrained "experts" that economists themselves show no unanimity of opinion on economic matters. Thus it is held there are economists supporting all existing economic theories and therefore any economic thesis will be found to be supported by one or more economists. However, many of these so-called authorities are self-avowed economists without professional standing and without economic training. They are not competent to judge economic phenomena. In other instances, economists have been guilty of misleading or confusing the uninitiated. Some of the existing disagreement among the practitioners of the "dismal science" may be attributed to differences in goals or objectives desired by the individual economists.

Other economists offer conclusions which are predicated upon sometimes fallacious, other times unrealistic, and still other times very limiting hypotheses. The untrained eye is all too frequently not sufficiently discerning to detect the assumptions which serve as the framework for the particular problem under consideration.

Any conclusions which the economist may draw from his logical analysis are applicable only to the conditions which he has outlined in his assumptions. A case in point is a small book written recently by an economist who has attempted to simplify economics so that a non-economist can learn the fundamentals of the field in a very short time. This book is perfectly consistent in its logic; however, it is implied that the conclusions derived from the rather limited assumptions fit all situations, when in reality it can only be assumed that they apply to the specific matter at issue. In this book, the author has based all of his logic and the resulting conclusions upon a perfectly competitive economy operating at full employment. This, however, is only one special type of situation and there can be in the future, as there has been in the past, many different levels of employment, and various degrees of competition ranging from highly competitive markets to monopoly situations.

Another possible trouble point is best described by the term "semantics." Words used regularly by the "man-in-the-street" are frequently given different meanings by the economist. Such commonplace words as "capital" and "investment," for example, are given meanings by the economist which are not consistent with the everyday meanings of the words. It should come as no surprise then, that economists themselves are sometimes guilty of

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attaching to economic terms meanings which are in conflict with the majority usage in the profession.

But regardless of the persons or groups of persons responsible, an unsatisfactory state of economic dissemination exists. Perhaps an even more important reason for the prevalence of economic misinformation is the fact that everyone is engaged to some extent in economic matters. The acceptance of money for services, the payment of money for goods or services, the making of a product, "meeting a payroll," and many more of the routine activities of individuals in our economy are economic activities. It is quite understandable that persons who are daily engaged in economic tasks should consider themselves competent to speak authoritatively concerning these matters.

However, a small amount of knowledge, or familiarity, with one small sector of the economy does not enable a person to become an economic authority. The individual businessman necessarily thinks from the point of view of his own firm. What is good for the firm and what will be the consequences of this action on the firm? These questions are the ones asked by the man of business, whereas the economist is concerned with the consequences for all firms as well as for each firm, for all consumers as well as one consumer.

Individuals who are immediately concerned with some economic task must be expected to take a limited and selfish outlook. They are unwilling or unable to see other than the most immediate and direct effects of an economic occurrence to themselves. For example, the trade unionist is only secondarily concerned, if he is concerned at all, with the repercussion of a wage increase upon an inflationary economy.

In the following paragraphs the writer will attempt to explain, in terminology easily understandable by the businessman and other interested non-specialists, the true nature of economics and the manner in which economists perform their task. It is hoped that this article will aid the readers in better understanding the scope and method of economics and to better appreciate the complexity and magnitude of the economists' job.

One economist has defined economics as the adaption of scarce resources to man's unlimited wants.[1] This definition has the merit of getting to the core of the economic problem in a very few words. The basic economic problem is, of course, the allocation of the scarce factors that perform the acts of production in all sectors of the economy, to the many alternative ends concerned with producing the goods and services that have the power to satisfy man's wants. In a world wherein the wants of all individuals are seemingly limitless or at best beyond the comprehension of any one man, and where the elements, land, natural resources, machinery, etc. (which are utilized to produce goods that will have want-satisfying power) are themselves scarce, thereby bringing on a scarcity of the want-satisfying goods, the problem of economics is to allocate in some manner these means of production. The contributor of the aforementioned definition asks a pertinent question about the definiteness of this definition. He notes that the engineer seems to be concerned with the adaption of scarce resources to satisfy man's unlimited wants, just as much as the economist. However, there is a difference, and this may help to differentiate between the objectives of the two fields. The engineer when given the problem of building a bridge tries to build it in the best possible way within the limits given him. The economist, on the other hand, is interested in whether or not the bridge should be built at all.

But definitions and explanations are themselves not as explanatory as is desired. The subject matter of economics is not clearly and distinctly outlined. It is obviously a branch of the social sciences, that vast body of knowledge which is concerned with human behavior. However, to determine

1 Robbins Lionel, An Essay on **The Nature and Significance of Economic Science**, 2d Revised Ed., London, The Macmillan Co., 1948.

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where economics ends and the other social sciences begin, is a formidable task. Nevertheless, there has been a tendency in the social sciences toward specialization in each of the separate areas along fairly well-agreed-upon lines. Economics itself, has separated from its closest sister discipline, political science, although these two areas continue to exert a considerable influence upon each other.

In spite of the movement toward more clearly defined bodies of knowledge, there remain questionable segments invaded by two or more disciplines, thus making difficult any attempt to pigeon-hole each problem of human behavior. In actuality there is no reason to be concerned over the correct classification of these fringe matters. The economist, as well as all other social scientists, should be concerned with only those problems with which he is competent to deal as the result of his training and experience. This has led to economists' specializing within the field of economics and also to differences in the breadth of economic coverage of some economists.

The increasing importance of business-government relationships and similar interdisciplinary problems has given rise to groups of authorities who cannot be accused of being devotees of any one established field of study, in the separate sense. Rather, these persons have tended to establish a new area of their own. This process may be looked upon as one more step in the fragmentizing of the social sciences. In this instance, however, the atomizing has involved the biting off of small portions of two or more previously separated disciplines, and the establishment of a new specialization, smaller in scope than the parent bodies of knowledge.

Yet there is a "core area" which is unquestionably economic. Therefore, we might be well advised to make some specific suggestions as to which groups of human activities are clearly economic. Three general areas of activity immediately suggest themselves: production, consumption, and exchange. The economist is clearly interested in the *quantities* of production, consumption, and exchange. The amounts of these activities are collected by statistical means through time, and ultimately become the basis for economic analysis. But the economist is also interested in *who* conducts the production, consumption, and exchange and *how* it is accomplished. Information concerning the forms of business organization involved in production; the size of the production units; the nature of ownership, i.e., governmental, privately owned or cooperative; the nature of, or degree of competition in the various markets of the economy; and the methods of production are sought by the economist.

In possession of the preceding information, the economist then describes and develops what he calls an economic system. An economic system is the organization of a particular society or the manner in which the economic institutions of a society are arranged so as to perform the production, consumption, and exchange functions expected of them. The institutions referred to are the organized, accepted ways which people in a particular economic system have developed in order to perform the necessary economic activities. For example, the use of a certain type of money as a medium of exchange is an institution; a trade union, a corporation, and the "right" of private property, are also examples of institutions. The economic system, once developed, should explain why and how people consume, produce, obtain, and spend money, expand, and satisfy their wants.

The task of the economist includes more than the mere description of the economic system. He is interested in predicting the outcome of human actions following certain changes within the economic sphere. Two examples of the type of problem that faces the economist follow. The economist may be called upon to predict the consequences to the economy that would result from a piece of legislation. Or, he might be commissioned by a business firm to determine the results of a price change by the firm. Economists have come to believe that within the framework of the existing social order, some measure of control over the environment is possible. As an illustration, in a recent statement, Arthur Burns, Chairman of the Council of Economic Advisors to the President of the United States, commented that while business cycles would continue to exist in the United States, their extremes could be eliminated.

Methodology

Generalizations, or principles, are developed which are useful in explaining and predicting the outcome of human activity in the areas of economics, following certain changes within the framework of the social order. These generalizations are largely formulated by one of two methods, the statistical or empirical method and the theoretical or logical method.

The statistical method closely approximates the scientific method of the physical sciences. The first step requires the formulation and statement of the problem. The following step involves the observation of the situation and the recording of the circumstances. The third step is the observation of the same situation at a later time or of a different, but similar, situation at the same time. Once again a record is made of the circumstances and any change that is observed.

The fourth step in the development of a generalization involves the classification of the several observations and a search for uniformities. The fifth step entails the development of a theory, or an analysis of the problems to discover the reasons for any observed relationships. The final step requires a testing of the theory.

FEBRUARY
ATLANTA AREA ECONOMIC INDICATORS

ITEM	February 1954	January 1954	% Change	February 1953	% Change
EMPLOYMENT					
Job Insurance (Unemployment) Payments	$311,187	$291,456	+6.8	$144,277	+115.7
Total Non-Agricultural Employment	296,000	296,800*	−0.3	292,100	+1.3
Manufacturing Employment	79,000	78,600*	+0.5	77,150	+2.4
Average Weekly Earnings, Factory Workers	$61.62	$65.69	−6.2	$63.34	−2.7
Average Weekly Hours, Factory Workers	39.5	40.8	−3.2	41.4	−4.6
Number Help Wanted Ads	5,866	6,829	−14.1	8,746	−32.9
Estimated Unemployment	N. A.	8,450	———	6,000	+40.8**
Percent Labor Force Unemployed	N. A.	2.4	———	1.8	———
CONSTRUCTION					
Number Building Permits City of Atlanta	700	762	−8.1	860	−18.8
Value Building Permits City of Atlanta	$4,896,349	$3,417,465	+43.3	$5,506,700	−11.1
Employees in Contract Construction	14,500	14,350*	+1.0	13,000	+11.5
FINANCIAL					
Bank Debts (Millions)	$1,180.6	$1,190.2	−0.8	$1,044.7	+13.0
Total Deposits (Millions) (Last Wednesday)	$952.1	$954.5	−2.7	$978.9	−2.7
POSTAL§					
Postal Receipts	$1,301,894	$1,294,081	+0.6	$1,111,742	+17.1
Poundage 2nd Class Mail	1,275,733	1,145,229	+11.4	1,087,588	+17.3
OTHER					
Department Store Sales Index (Adjusted) (1947–49=100)	116	121	−4.1	119	−3.5
Department Store Stocks	N. A.	N. A.	+11.0	N. A.	−3.0
Retail Food Price Index (1947–49=100)	112.5	113.1	−0.5	111.6	+0.8
Number Telephones in Service	244,901	244,332	+0.2	235,709	+3.9

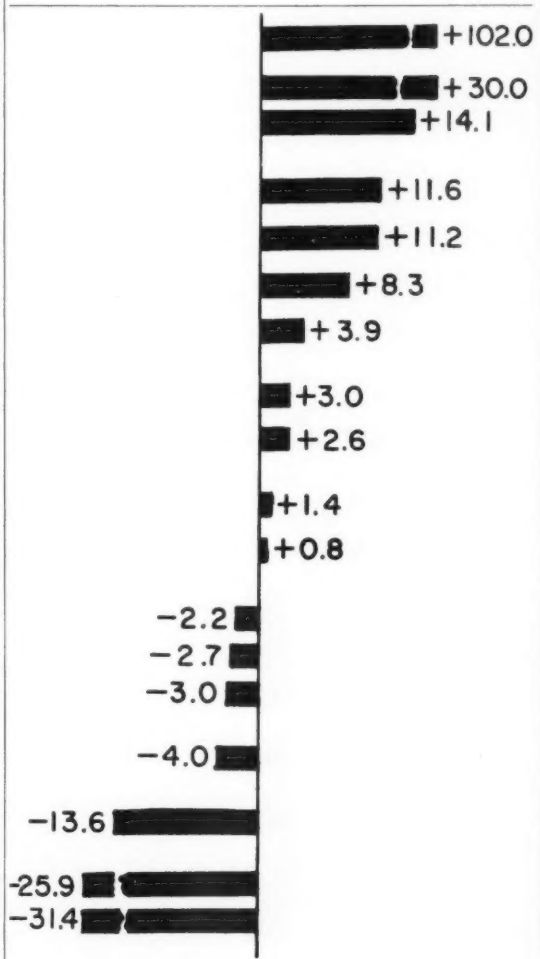
*Revised. **Percent Change Feb. '53 to Jan. '54. N.A.—Not Available
§City of Atlanta only.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales and Stocks Indexes: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

January Through February, 1953 and 1954

1954	1953	ITEM
$602,643	$298,402	Job Insurance Payments
8,450	6,500	Estimated Unemployment***
$2,593,975	$2,273,839	Postal Receipts, Atlanta Post Office
2,420,962	2,170,071	Poundage 2nd Class Mail Atlanta Post Office
14,425	12,975	No. Construction Employees*
$2,370.8	$2,189.0	Bank Debits (Millions)
244,901	235,709	Telephones in Service**
$63.66	$61.79	Average Weekly Earnings,* Factory Workers
78,800	76,825	No. Manufacturing Employees*
296,400	292,175	Total Non-Agricultural Employment*
112.5	111.6	Retail Food Price Index**
40.2	41.1	Average Weekly Hours, Factory Workers*
$952.1	$978.9	Total Deposits (Millions)**
N. A.	N. A.	Department Store Stocks**
N. A.	N. A.	Department Store Sales (Based on dollar amounts)
1,462	1,692	No. Building Permits City of Atlanta
$8,313,814	$11,214,805	Value Building Permits, City of Atlanta
12,695	18,494	Number Help Wanted Ads

PER CENT CHANGE



*Average Month
**End of Period
***January 1953 and 1954
N.A.—Not Available.
Sources: Same as page 4.

In spite of its apparent "scientific" nature, the statistical method is unquestionably the inferior of the two methods. Therefore, it is the least used. The usefulness of a statistically-determined generalization is dependent upon the situation from which it was formulated being very similar to such later situations for which it is used.

One has only to consider the many complex factors which exist in any economic problem to appreciate the difficulty that exists here. As an example, several years ago economists were desirous of obtaining an economic generalization which would disclose the consequences of increasing the qualities of one of the factors that comprised those resources necessary for agricultural production. At the same time, the other factors necessary for production remained fixed. In this particular case, fertilizer was the variable (a factor that was changed), labor, machinery, land, etc. remained in fixed amount.

A problem that faced the economists, right at the outset, was the choice of situations to be compared. One possibility was to use the same land, labor, machinery, etc. and apply the fertilizer at different time intervals. That is, the first year make one application of fertilizer, the second year make two applications of fertilizer, using the same other factors. Then continue this procedure for several other years, each year increasing the fertilizer, and finally comparing the yields of each year. The weaknesses of this program were apparent and caused its rejection. Differences of weather, in the other factors used, in the techniques of production, etc., would certainly rule out the effectiveness of this approach.

An alternative approach was used which promised more scientific results. It was decided to conduct the experiment at the same time, in the same geographic area. This tended to eliminate changes in weather. However, it also tended to continue or even exaggerate land, labor, and machinery differences. Economic generalizations drawn from industrial or governmental situations are usually even less conducive to the statistical approach than agricultural problems.

The logical approach is merely an attempt to establish an orderly, organized method of thinking out such problems as come within the province of the economist, and of asking the right questions.

The first step in the development of a generalization via the logical approach is the same step that was taken in the statistical method. The problem must be selected and stated. Thereafter, the approaches are quite different.

In stating his problem, the economist first lists certain assumptions or hypotheses concerning human behavior and the institutional background of the economy. These assumptions are merely observations which are intended to define or simplify the matter under consideration. Then, having stated the assumptions, the economist deduces, by logical reasoning, the implications of the assumptions or the results that could be expected from this particular combination of assumptions.

When possible, a final step involves the testing of the resultant principle or generalization by the empirical approach. Unfortunately, too few logically-derived principles are capable of being subjected to an empirical test. The nature of economics curtails the possibility of controlled experiments. However, economists have increasingly looked to statistical measurement to verify the results of their logical reasoning. While a statistical study cannot offer indisputable proof of a generalization, it can, as a minimum contribution, prove that the actual behavior is consistent with theory.

The assumptions are the most vulnerable part of the logical approach. No logical analysis is any better than its assumptions. Whereas errors in logic are usually easily discovered, incorrect assumptions which are wrongly applied to a particular situation are more difficult to discern.

The economist prefaces his analysis with such "givens" as are relevant to the particular problem at hand. These assumptions could include: the population of and the established ownership pattern of the economic resources of the economy, existing taste patterns, techniques of production, etc.

In addition, there are assumptions concerning human psychology that do not exactly describe the behavior of all persons. For example, the assumption that consumers maximize want satisfaction; that business firms maximize profits; that man is rational, etc. Assumptions of this type, while not describing all men, tend to describe the average or typical man. Or at least they come close to approximating the actions of human beings.

Oscar Lange explains the advantage of the usage of the postulate or rationality.[2] "This assumption provides us with a most powerful tool for simplification of economic analysis. For, if a unit of decision acts rationally, its decisions in any given situation can be predicted by mere application of the rules of logic (and of mathematics). In absence of rational action such prediction could be made only after painstaking empirical study of the uniformities in the decision patterns of the unit. For a unit which acts rationally, these uniformities or laws can be deduced immediately by logic and the decisions predicted accordingly. Thus the postulate of rationality is a short-cut to the discovery of laws governing the decisions of units and to the prediction of their actions under given circumstances."

Here again is a segment of economic methodology which has been attacked for its alleged lack

2 Lange, Oscar, "The Scope and Method of Economics," in Hess, A. P., et. al. (ed.), **Outside Readings in Economics**, New York, The Thomas Y. Crowell Co., 1951, pp. 17-18.

of reality. It is quite true that the economist does not always have a factual basis for his postulates. However, the nature of economics is such that the majority of the assumptions themselves are of first-hand knowledge to the man-in-the-street, or at least to the more intelligent of the citizenry. Certainly the economist's assumptions are more easily verified than those of the natural scientist. Assumptions such as the degree of competition existing in a certain market area, or the level of employment, are subject to the scrutiny of all interested parties.

Even the non-realistic assumptions of the economist are defensible. The economist frequently engages in coping with problems involving conditions differing from those in effect at that moment. For example, the Eisenhower Administration during the high level prosperity of its first year in office, nonetheless concerned itself with depression-recession matters. Machinery was set up to head off a plunge to a significantly lower level of employment. Thus, the government economists, when given the problem of adequate measures to be taken in a recession period, had to engage in hypothetical assumptions. These unreal assumptions nonetheless described and outlined a state of economic activity that could arise and in fact which had been experienced in the past. Therefore, the hypothetical assumptions too, although not depicting the current state of affairs, could nevertheless be recognized as a quite possible condition.

One of the chief criticisms of economics is the frequently encountered statement that "economics is too abstract." Often, the person responsible for such a statement is not at all certain as to the meaning of the term. The word "abstract" simply represents something obscure, unrealistic, and that which the critic cannot comprehend.

Actually, the economist must be abstract in tackling his problems. But, so too, do the practioners of other sciences use abstraction. Only by engaging in abstraction can causal relationships be determined. For example, to study any single economic problem with its many intricacies, it is necessary to take one thing at a time and isolate it from the other matters with which it is found. Similarly, if the economist should wish to understand the relationships between two or more elements, it will be necessary to study them apart from other elements. This use of abstraction has caused the economist to engage in what some wag once called "never-never-land economics." In the terminology of the economist, he is using "ceteris paribus" economics. That is, all other things being inoperative, or other forces which influence the problem are considered to be constant. But the practitioners of other sciences also utilize this device. Is the ceteris paribus assumption more divorced from reality than the physicist's assumption of the absence of gravity?

The use of ceteris paribus enables an economist to come to grips with manageable problems, but it requires him to sacrifice certainty in his conclusions and recommendations. He can merely state that an increase in the supply of cotton will cause the price of cotton to fall, ceteris paribus—all other influences except the amount of cotton being assumed to be unchanging from their position at the time prior to the decrease in the amount of cotton. Or to put it another way, the economist who has simply observed the direct effect upon the price of cotton that occurred from changes in supply, might speak of "tendencies." An increased cotton crop will tend to lower the price of cotton. The term "tend" then, suggests that a certain result will materialize in the event that forces other than those immediately studied do not change. It also can be used to describe average behavior as differentiated from the actions of each individual. In dealing with human beings, the economist recognizes that the logical course of action, or that activity which the majority of persons would do need not be the response of all persons.

What purpose do the economic principles or economic "laws," as they are sometimes called, serve? The principles become additional tools in the minds of the economists. The principles serve as hypotheses which permit more effective and wider-reaching results than could be obtained without them.

An economic system is a very complicated mechanism. Therefore, if economic laws or principles are to be manageable in a substantial number of cases, rather broad assumptions must be made. These assumptions must recognize the major characteristic features of a number of situations. The alternative to this would be the selection of very detailed assumptions. This course of action would allow detailed conclusions, but would necessitate extremely large numbers of principles, none of which would be significant except in a few cases.

John F. Due suggests the benefits which accrue from properly conducted and applied economic analysis:[3]

1. It indicates the consequences of various alternative actions, thereby providing an intelligent basis for choice among the possible actions.

2. It provides a basis for the prediction of future events.

3. It provides a basis for judging the efficiency of economic systems, or portions thereof, for accomplishing the goals desired by society.

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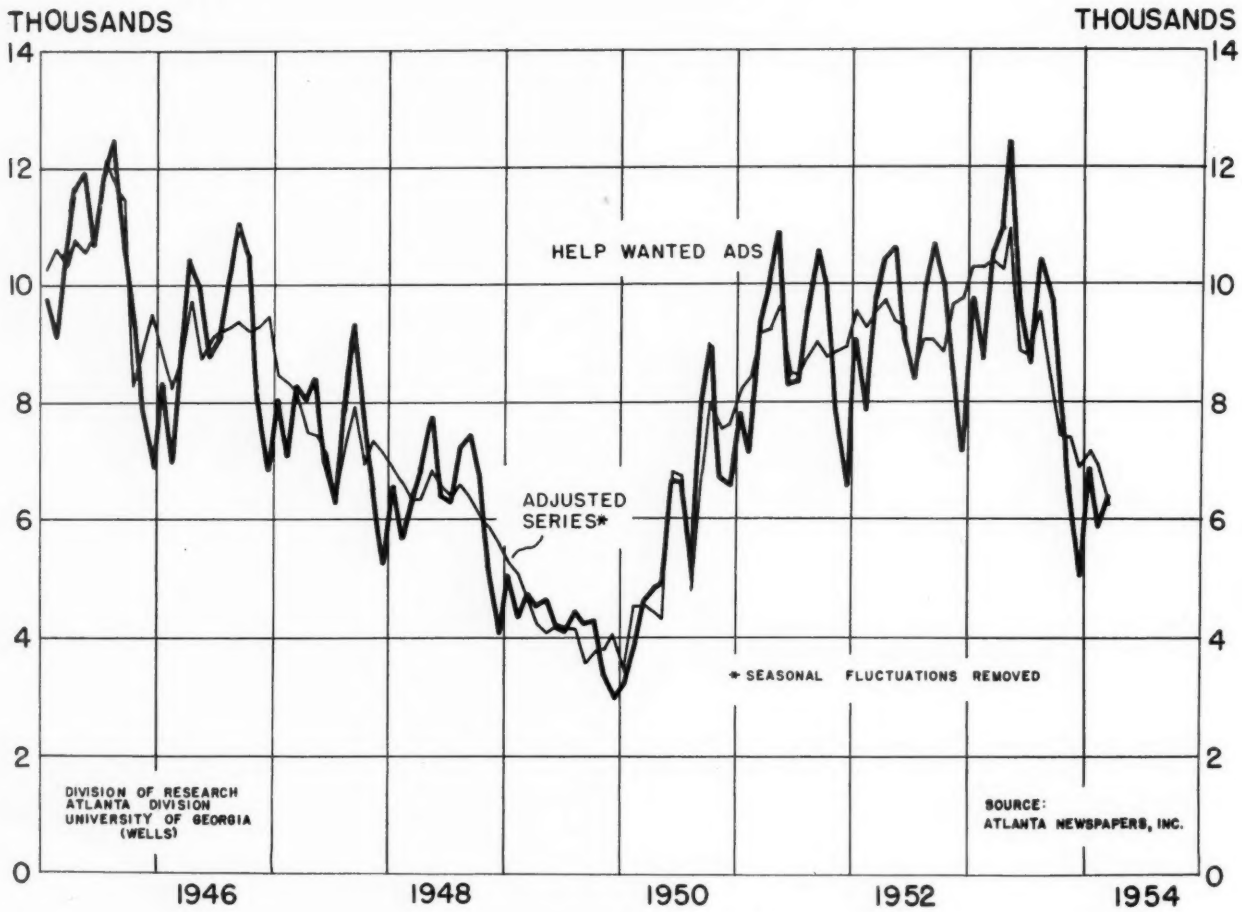
3 Due, John F., **Intermediate Economic Analysis**, Chicago, Richard D. Irwin Co., 1947, pp. 9-10.

NUMBER OF HELP WANTED ADS IN ATLANTA NEWSPAPERS NEARS POSTWAR PEAK IN MAY 1953, THEN TURNS SHARPLY DOWNWARD. . . . .



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